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SUBJECT: POTENTIAL TRADE PROSPECTS IN MINDANAO: THE BIMP-EAGA

Ref: A) Manila 1610, B) Manila 1050, C) Manila 1790, D) Manila 0998

¶1. (U) Summary: This cable describes an international policy initiative designed to promote links between the southern Philippines and peripheral regions of neighboring countries known as the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA). Supporters believe the initiative has great potential to promote regional economic prosperity, but progress has been slow. This cable provides a general overview of the BIMP-EAGA initiative and its challenges, and is one in a series of cables that highlight the economic issues of the Mindanao region, which is often associated with peace-and-order challenges and high poverty rates (Ref A). End summary.

BIMP-EAGA: A Poor Rich Area

¶2. (U) The BIMP-EAGA is a sub-regional economic cooperation initiative first established in 1994 to spur development in the geographically proximate territories of Brunei Darussalam, Indonesia, Malaysia and the Philippines, all of which are member countries of the regional Association of Southeast Asian Nations (ASEAN). Covering an area of about 1.6 million square kilometers that is home to about 60 million people, the BIMP-EAGA's goal is to accelerate trade, investment, and transportation among resource-rich, less-developed areas that are geographically distant from their national capitals. The area includes Kalimantan, Sulawesi, Maluku, and Irian Java in Indonesian; Sabah, Sarawak and Labuan in Malaysia; the southern Philippine islands of Mindanao and Palawan; and all the islands, waters, and resources in between. The entire sultanate of Brunei Darussalam is also part of the sub-region and the initiative, although it has largely escaped poverty through the development of its abundant offshore hydrocarbon resources.

¶3. (SBU) The area includes some of the most valuable concentrations of natural resources in the world, encompassing two of the world's largest rainforests, the center of the world's marine bio-diversity in the so-called "coral triangle," the migration routes of immense schools of tuna and sardines, and some of the world's largest deposits of gold, nickel, copper, and chromites. Although not fully surveyed, the area is also thought to be rich in hydrocarbon deposits. Newly developed oil fields near Palawan have already begun supplying significant quantities of petroleum to Philippine refineries (reported septel).

¶4. (SBU) At present, the Asian Development Bank (ADB) is the BIMP-EAGA's most important source of development assistance. ADB officials recently explained to Embassy officers their hypothesis that this sub-region is relatively impoverished and underdeveloped in part because it is geographically distant from the national capitals. The distance from the capital leads to less attention

from the national government, less spending on social services, infrastructure, and transportation links, which in turn reinforces the sense felt by the inhabitants of a sub-regional "separateness" and disenfranchisement from the mainstream of their respective countries. In the case of Mindanao, this "separateness" manifests itself in a range of ways from insurgent violence against the national government, to calls by mainstream political and business leaders for a federal system of government that gives the people of Mindanao more control over how local resources are developed. Differences between local and national interests contribute to the difficulty in efficiently developing the economic resources of the area.

Gains in Trade, Investment and Tourism

¶5. (SBU) The ADB officials explained that as a result of BIMP-EAGA, new direct sea and air links have opened between these peripheries; investments, tourism, and trade have increased. These air and sea linkages have generated a steady increase in intra-regional travel of about 7% per year. Foreign direct investments in Mindanao from its area neighbors have included investments in tuna canning, energy, palm oil, banking, and tourism/hotel services. Outbound investments have included tuna canning and automotive supplies. Among the southern Philippines' top exports to its area neighbors are coconut oil, natural rubber, tinned iron and steel, and chemicals. The top five Philippine imports from the area include liquefied petroleum gas, copra, methanol, veneer sheet, plywood, and coal. The southern Philippines' largest trading partner in the Area is Indonesia, followed by Malaysia.

¶6. (U) Transportation incentives offered by the BIMP-EAGA include

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the BIMP-EAGA Uniform Port Tariff (UPT) rate for shipping services, which allows vessels docked at ports within BIMP-EAGA to enjoy reduced port fees. Since 2002, BIMP-EAGA has offered a 50% discount on civil aviation fees and regulatory charges; landing and take-off fees; parking fees; terminal fees; and air navigation charges. There is a 50% reduction in certain customs and immigration fees in all participating seaports and airports in BIMP-EAGA. And, all passengers traveling between area destinations are exempt from normal travel taxes.

¶7. (U) Memoranda of Understanding (MOU) signed in 2007 created the 1) expansion of BIMP-EAGA air services fifth freedom rights to allow airlines to bring cargo and passengers from one country to another other than from its home country; 2) integrated sea links between 33 designated BIMP-EAGA gateway ports; and 3) cross-border movement of commercial buses and coaches via ferry. These MOU are milestone achievements in providing more liberalized transportation services in the sub-region--making the BIMP more attractive for future investments, and more integrated into the broader regional economy.

Streamlining of Customs, Immigration, and Security

¶8. (SBU) The BIMP-EAGA has also streamlined Customs, Immigration, Quarantine and Security Rules (CIQS), Regulations, and Procedures. This initiative has led to joint maritime border patrols between the Philippines, Malaysia and Indonesia; common standards for air and maritime pilot-testing; joint assessments of the customs environment in priority ports; and convening the first BIMP-EAGA customs task force. However, ADB officials noted to Embassy officers that there is much 'informal trade' (i.e., smuggling) between Area countries.

¶9. (SBU) The Philippine Long Distance Telephone Company has introduced discounted rates within the area, as well as an area code. Demark motor manufacturing, a Malaysian company, has established operations in Zamboanga City, Oriental & Motolite Marketing Corporation (Filipino-owned) is now operating in Malaysia and Brunei, and there is direct import of diesel fuel from Malaysia to a number of fishing companies based in Zamboanga City, just to name a few of the investment ventures.

Working toward Solutions

¶10. (SBU) The ADB and the BIMP-EAGA National Secretariats recognize the need for improvement in private sector investment in the BIMP-EAGA initiative. The fourth BIMP-EAGA Summit, which was held in Singapore in November 2007, called for a comprehensive review of BIMP-EAGA progress, with ADB technical support that will be presented in mid-October 2008. According to ADB officials, the review will reveal a large gap between potential and actual investments by the private sector. The ADB is now also assisting BIMP-EAGA to improve its marketing plans, create economic corridors, increase connectivity, and strengthen local government coordination within the Area.

Comment

¶11. (SBU) ADB officials expressed great enthusiasm about the potential of the BIMP-EAGA initiative to improve regional prosperity and peace. However, they admitted the initiative had gotten off to a slow start, suffered a number of unforeseen setbacks, and still faced serious challenges. Among the major challenges include the lack of effective national government control of the area, and the ensuing smuggling, illegal drugs, piracy, and other criminal activities. The ineffective national government presence in the area also complicates collection of quantitative indicators by which to measure the initiative's success. The 2006-2010 BIMP-EAGA Roadmap sets some measurable goals, but it is still too soon to measure progress towards these goals. Recent moves by Malaysia to expel Filipinos from Sabah, and increased smuggling in the area in response to the rising costs of food and fuel may undermine the goodwill on which the initiative is based.

KENNEY